

September 2, 2011

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Ministère du Développement durable, de l'Environnement et des Parcs
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RE: Renewable Energy Markets Association comments on Québec's proposed Draft Regulation respecting a cap-and-trade system for greenhouse gas emission allowances

Dear Ms. Bouchard:

The Renewable Energy Markets Association (REMA) appreciates the opportunity to provide comments on the Government of Québec's proposed draft cap-and-trade (C&T) regulation, released July 7, 2011.

REMA represents the collective interests of both for-profit companies and nonprofit organizations that sell or promote the sale of renewable energy products, including renewable technology, renewable electricity, and renewable energy certificates (RECs), to individuals, companies and institutions throughout North America. REMA actively engages in policy proceedings at the federal, regional, and state levels.

The Government of Québec has embarked on an ambitious and worthy goal of reducing the province's Greenhouse Gas (GHGs) emissions through partnership in the Western Climate Initiative (WCI). In this pursuit, REMA expresses its support and continued assistance in developing a climate program that encourages meaningful GHG reductions through both compliance and voluntary actions.

As proposed, the draft C&T regulation does not incorporate a mechanism accounting for voluntary renewable energy purchases. REMA has submitted numerous recommendations to WCI on implementing a C&T scheme that preserves the voluntary renewable energy markets. Today's comments are part of that continuing dialogue to ensure that the Government of Québec includes regulatory provisions that recognize meaningful voluntary purchases of renewable energy within its compliance mechanism.

WCI has identified the importance of the Voluntary Renewable Energy (VRE) markets within its July, 2010 publication, "Voluntary Renewable Energy Market: Issues and Recommendations." The report outlined recommendations for WCI jurisdictions in implementing a set-aside process to account for VRE market activity.

The proposed C&T regulation presents an opportunity to act and improve upon WCI's VRE set-aside recommendations, as well as learn from existing state and regional treatments of VRE market interactivity. Existing regional and state GHG structures like the Regional Greenhouse Gas Initiative (RGGI) and the California Air Resources Board (ARB) have made strides in reducing GHG emissions through similar regulatory frameworks with set-aside components.

REMA's recommendations for incorporating a robust VRE set-aside in Québec's C&T regulation include the following position statements.

Summary of REMA Recommendations for Implementing a VRE Set-Aside

- I. Any VRE set-aside cap should have flexibility to account for VRE market growth**
- II. Any time limit on the VRE set-aside should have flexibility to reflect market growth**
- III. Base VRE set-aside retirements on the location of the generator**
- IV. Coordinate emission reduction activities with other Western Climate Initiative jurisdictions**
- V. Conduct the administrative adjustment to the budget done annually**
- VI. Use a two-way budget adjustment for the ex-post true-up of allowances**
- VII. Claims on the set-aside should be based on reports from recognized tracking systems**
- VIII. Base the ex-ante estimate of budget adjustment needed on tracking system data**

I. Any VRE set-aside cap should have flexibility to account for VRE market growth

REMA urges the Government of Québec not to adopt a pre-determined cap and to allow budget adjustment to be determined by demonstrated demand. An inflexible cap would place an artificial ceiling on the growth of the voluntary market for renewable energy, while an annual adjustment would provide flexibility and encourage additional demand for VRE purchases.

The Government of Québec should recognize that voluntary demand for renewable energy helps reduce greenhouse gas emissions, and the proposed administrative adjustment seeks to ensure that renewable energy supported by the voluntary market in fact reduces emissions by retiring allowances. It should not be the case that only some voluntary demand reduces emissions; every emission-free mega-watt hour (MWh) of renewable energy supported by voluntary demand offers the same greenhouse benefits and should be recognized by eligibility to retire allowances. A pre-determined cap would introduce risk and uncertainty regarding environmental claims. Again, it is important that purchasers know that they will get what they think they are purchasing.

The rationale for a cap on the administrative adjustment is usually to protect emitters from having to acquire scarcer (and possibly more expensive) allowances. But every renewable MWh generated to the grid reduces the number of MWh (and emissions) generated from other sources, thereby reducing the need for allowances. When both supply of and demand for allowances are reduced by an equal amount, the price of allowances should be unaffected. If there must be a cap on the number of allowances that can be placed in the Holding Account as an administrative adjustment, then there is no need to do the ex-ante estimate of budget adjustment for the voluntary market for renewable energy.

Should the Government of Québec implement a cap on the VRE set-aside, the fixed number or percent of allowances should simply be placed into a Holding Account. RGGI provides an example. Although the RGGI model rule envisioned that each state would conduct an ex-ante estimate of demand, most RGGI states (the exception being Massachusetts) opted to place a fixed number or percent of allowances in their administrator's accounts, rendering the ex-ante estimate administratively superfluous.

However, should the Government of Québec instead pursue a cap on the number of allowances that can be placed in a Holding Account, REMA strongly recommends that the cap be subject to periodic review and adjustment prior to the start of each three-year compliance period, or that an automatic review be triggered whenever demand exceeds the cap for two years in succession. Several RGGI states have adopted a similar provision.

II. Any time limit on the VRE set-aside should have flexibility to reflect market growth

The Government of Québec should bear in mind that it is through the addition of more renewables that the state will actually reduce carbon emissions in the electricity sector. If renewable technology costs become competitive, and there is sufficient supply relative to demand that REC prices are low, we can put more renewables on the grid, reduce greenhouse gas emissions, and thereby reduce the need for allowances. The growth of demand for renewables, both voluntary and mandatory, will also provide evidence that the overall emissions cap can be lowered. REMA sees no logical reason to curtail this positive trend.

Other comparable GHG reduction programs have sent mixed messages on establishing a time limit for a VRE set-aside. While RGGI has not incorporated such a limit—and no RGGI members have embraced it, WCI has recommended that its partner jurisdictions choose “whatever time limit (if any) that is found appropriate for that jurisdiction.”¹ The growth of demand for renewables, both voluntary and mandatory, should assist renewable technologies in becoming competitive, thereby increasing supply relative to demand so that REC prices are low, which puts more renewables on the grid, reduces greenhouse gas emissions, and reduces the need for allowances overall. Term limiting a VRE set-aside threatens the investment in and scaling up of renewable energy generation.

If the Government of Québec nevertheless feels that it may be desirable to end the VRE set-aside at some point, it should not choose an arbitrary sunset date now when we have no evidence to support that move. Instead, it should undertake a general market review in the future to examine the evidence and determine, through a multiparty stakeholder process, that a sunset on the set-aside is merited.

Finally, if the Government of Québec decides to end the VRE set-aside, it should be careful to base the sunset on the date of project *installation*, not on the date of the RECs or output. Renewable developers who make investment decisions based on a set of assumptions about market support should not have the rug pulled out from under them. That kind of risk is a deterrent to new investment.

III. Base VRE set-aside retirements on the location of the generator

REMA fully supports a generator-based approach in which allowances are retired whenever RECs from a facility in the Government of Québec’s territory are purchased and retired by a customer in the VRE market with no limitation on the customer’s location. As you may know, WCI recently recommended this approach to guide its VRE set-aside.² However, it should be noted that RGGI has based its retirement of allowances for voluntary renewable energy on the location of the buyer. We believe this would be a mistake. It should not matter where the buyer is located, but rather on where the generator is located, for two reasons:

¹ Western Climate Initiative, *Voluntary Renewable Energy Market: Issues and Recommendations*, 27 July, 2010, pg. 30.

² *Ibid*, pg. 26

- First, if a consumer located outside Québec purchases RECs from a renewable generator located within Québec, that purchaser would have the same effect on emissions in Québec as an in-state purchaser. Both would reduce emissions in Québec.
- Second, in addition to lowering emissions in Québec, focusing on the location of the generator is good for the Québec economy by encouraging out-of-state demand and offering wider markets to Québec-based generators.

Whether the purchaser is located inside or outside Québec, RECs from eligible Québec generators should be retired. REC retirement will generally occur in WREGIS, but if the RECs are exported to another tracking system that serves the purchaser, these too should be accepted as long as they include the necessary information to tie them back to a Québec generator whose RECs were originally issued by WREGIS.

The problem with basing the adjustment on the location of the renewable energy customer (i.e., limiting it to Québec purchasers) is that it would unnecessarily restrict the benefits to Québec—the economic benefits to Québec generators noted above, and the emission reduction benefits to Québec, because out-of-state purchasers would be reluctant to buy from Québec generators if they cannot claim emission reductions.³ This would lead to smaller and balkanized markets for renewable energy as other states and provinces would follow Québec's lead. Limiting markets in this way would reduce competition and could lead to higher REC prices.

IV. Coordinate emission reduction activities with other Western Climate Initiative jurisdictions

REMA would like to emphasize that the creation of a VRE set-aside to support renewable energy is most effective when other geographic partners create reciprocal arrangements. The Government of Québec has signaled that it intends to integrate its climate efforts with existing programs like WCI, and that it may also fashion its VRE set-aside on WCI's structure. REMA encourages the Government of Québec to press for similar treatment of voluntary renewable energy among WCI's partners. Just as renewable energy generated in Québec and sold to voluntary buyers in Oregon should result in retirement of Québec allowances, so should renewable energy generated in Oregon and sold to voluntary buyers in Québec result in the retirement of an Oregon WCI allowance.

Further, when integrating the Government of Québec's design with WCI, there should be no state or province-specific restrictions that balkanize the VRE market. Despite WCI's reluctance to require harmonizing its jurisdictional rules on a VRE set-aside and defining renewable generator eligibility requirements⁴, such a uniform definition of eligible resources could account for an administrative adjustment to each partner's base budget.

V. Conduct the administrative adjustment to the budget done annually

REMA recommends that the administrative adjustment for voluntary renewable energy demand be made annually so that voluntary buyers and sellers do not have to wait for three years or longer to be certain of the effect of their purchases. Annual reporting, verification and adjustments would also

³ For example, Green-e Energy will only certify renewable energy generated in a capped state if CO2 emissions allowances are retired. If purchases from out of state do not result in retirement of allowances, such renewable energy is not eligible for Green-e certification. See http://www.green-e.org/docs/energy/Appendix%20D_Greene%20Energy%20National%20Standard.pdf, (p.15).

⁴ Op. Cit. WCI July 2010, pg. 20.

ensure that participants remain familiar with the administrative actions necessary to support environmental claims, and submit timely reports.

Another reason for making the administrative adjustment annually is that it would be more accurate to do a one-year projection of voluntary demand than a three-year projection. Voluntary demand may be more sensitive to annual fluctuations in general economic conditions as well as to price fluctuations based on year-to-year variations in supply and demand. A one-year ex-ante estimate of the budget adjustment needed would be more likely to reflect current conditions. An annual adjustment and retirement of allowances would also be consistent with the Green-e standard for annual verification of purchases and retirements. This is important because Green-e certifies the vast majority of voluntary renewable energy products.

VI. Use a two-way budget adjustment for the ex-post true-up of allowances

REMA recommends that any shortage of allowances in the VRE set-aside for a given year be remedied by increasing the next year's ex-ante adjustment by the amount of the shortage, and immediately (in the new year) retiring allowances commensurate with the shortage. Consumer-led growth of the renewable energy sector should be reflected in a true-up that recognizes the voluntary market's progression.

If this cannot be done, then the Government of Québec should adopt a policy of not releasing any excess allowances in the Holding Account, and instead carrying them forward to be used in any year when voluntary demand exceeds the ex-ante adjustment for that year. This issue is critical because it will be impossible to ensure that a purchase is meaningful if it is uncertain that it will result in the retirement of equivalent allowances. Purchasers have to know that they are going to get what they think they are buying.

VII. Claims on the set-aside should be based on reports from recognized tracking systems

REMA supports the use of tracking systems in substantiating REC ownership claims. The North American Renewables Registry (NAR) operated by APX is now operational and available for any generator in North America to register for the issuance of certificates. By requiring only reports from recognized tracking systems, the Government of Québec would be emphasizing the importance of transparent, easily traceable and verifiable documentation as the basis for allowance retirements.

Reliance only on tracking systems would also bring with it adherence to metering and verification standards that would not be present through audits and attestations. If claims must be verified by a recognized tracking system, then two things follow:

- Any generator that wants to sell RECs or renewable electricity into the voluntary market must be registered with a tracking system and have that tracking system issue certificates to the generator. This ensures that no one else is issuing certificates for the same generation, and that there is no double counting.
- The party that makes a claim should be required to be registered for an account with one of the recognized tracking system. Having an account with a tracking system means that the party will be able to indicate in their account when RECs are retired for voluntary sales, and they will be able to generate a tracking system report to that effect to substantiate their claim.

In the case of RECs that originated in one tracking system but are exported to another tracking system, the only requirement would be that the importing tracking system can verify that the RECs originated from an eligible WCI jurisdiction generator

VII. Base the ex-ante estimate of budget adjustment needed on tracking system data

Should it choose to implement a VRE set-aside, the Government of Québec will need to estimate the level of VRE demand and the number of allowances to place in the set-aside each year (unless a fixed, pre-determined amount is automatically allocated to the set-aside account).

To create the ex-ante estimate, jurisdictions should first establish the most recent annual demand (we will call it the baseline), then update that using recent growth in demand to estimate the necessary adjustment to the upcoming budget year.⁵ Each certificate issued by the tracking systems contains vital information about the energy source, generator location, date the generator began commercial operation, and other attributes of the MWh generated. The tracking systems also assign each certificate a unique serial number, a fact which is essential to verification of no double counting.

Tracking systems are also ideal to this task because they are comprehensive. They include all RECs issued to generators registered with the tracking system, regardless of whether those RECs are sold as an unbundled product, bundled with electricity and sold as green power, or generated by distributed generation and consumed onsite.

Retail sellers of renewable electricity or RECs should have to indicate in their tracking system accounts the number and serial numbers of the certificates sold to (and retired for) voluntary purchasers.⁶ Again, the certificates will indicate whether the state where the generator is located, and could easily indicate its eligibility for the VRE set-aside. After the end of a calendar year, the tracking system could then produce a report showing the sum total of voluntary sales from eligible generators in each WCI jurisdiction.⁷

For the second step in the ex-ante estimate, the Government of Québec would project the baseline ahead to the upcoming budget year using the percentage change in voluntary renewable energy sales between the two most recent years with full data. To illustrate, let us assume that we are in 2011 and that we need to estimate the adjustment to the 2012 base budget. Each jurisdiction would obtain a report from the tracking system on voluntary sales from eligible generators for calendar year 2010. The 2010 baseline would be adjusted two years to 2012 by using the annual growth rate in voluntary sales,

⁵ For example, western states participating in WCI may use the Western Renewable Energy Generation Information System (WREGIS). British Columbia generators could also register with WREGIS. Manitoba participates in the Midwest Renewable Energy Tracking System. In this VRE set-aside recommendation, Quebec generators could register with the North American Renewables Registry. An exception would have to be made for jurisdictions that do not have a history using NAR or another tracking system. In that case, for the initial year, the jurisdiction could make its own estimate of demand, with review and input by the marketers or buyers, or the jurisdiction could request that marketer.

⁶ WCI jurisdictions should verify with the tracking system their generators use that the functionality currently exists for tracking system account holders to indicate the purpose for which certificates are being retired (voluntary sale or compliance with an RPS). If it does not currently exist, the jurisdictions should request that tracking systems add this functionality so that they can create and issue the necessary reports described here. They could work with the Environmental Tracking Network of North America (ETNNA) for this purpose.

⁷ The data would be aggregated so as not to show voluntary retail sales by any individual utility or marketer.

also shown by tracking system reports, from 2009-2010.⁸ This approach is not complicated, uses highly reliable data, and could be done and reported out by WCI jurisdictional staff showing all data and calculations for transparency.

The final step in the ex-ante adjustment would be as described as such. Using the projection of voluntary demand in MWh, the Government of Québec would calculate, using the appropriate emissions factor for their jurisdiction, a commensurate number of allowances representing reduced emissions due to this expected level of voluntary demand for eligible renewable energy. This number of allowances would then be withheld from the base budget, and earmarked and held in the VRE set-aside account.

⁸ This proposed schedule would have to be confirmed by the tracking system. There is a lag between the month when generation occurs and the month when certificates are created, and consequently a lag of perhaps six months after the close of a year before reports for the calendar year can be issued.

Conclusion Remarks

Again, REMA thanks the Government of Québec for taking its comments on structuring a VRE set-aside under consideration. Incorporating REMA's recommendations will ensure that the Government of Québec responsibly addresses climate change concerns while simultaneously encouraging meaningful purchases of renewable energy that allow individuals and businesses to go above and beyond statutory obligations. Also, REMA's set-aside comments will allow the Government of Québec to integrate lessons learned from VRE treatment in similarly structured North American capped markets and improve the renewable energy markets overall.

Should any of the aforementioned comments or recommendations incite questions or require additional clarification, please contact Joseph Seymour, REMA Policy and Governmental Affairs Coordinator, at jseymour@ttcorp.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Josh Lieberman".

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